Industrial Distribution

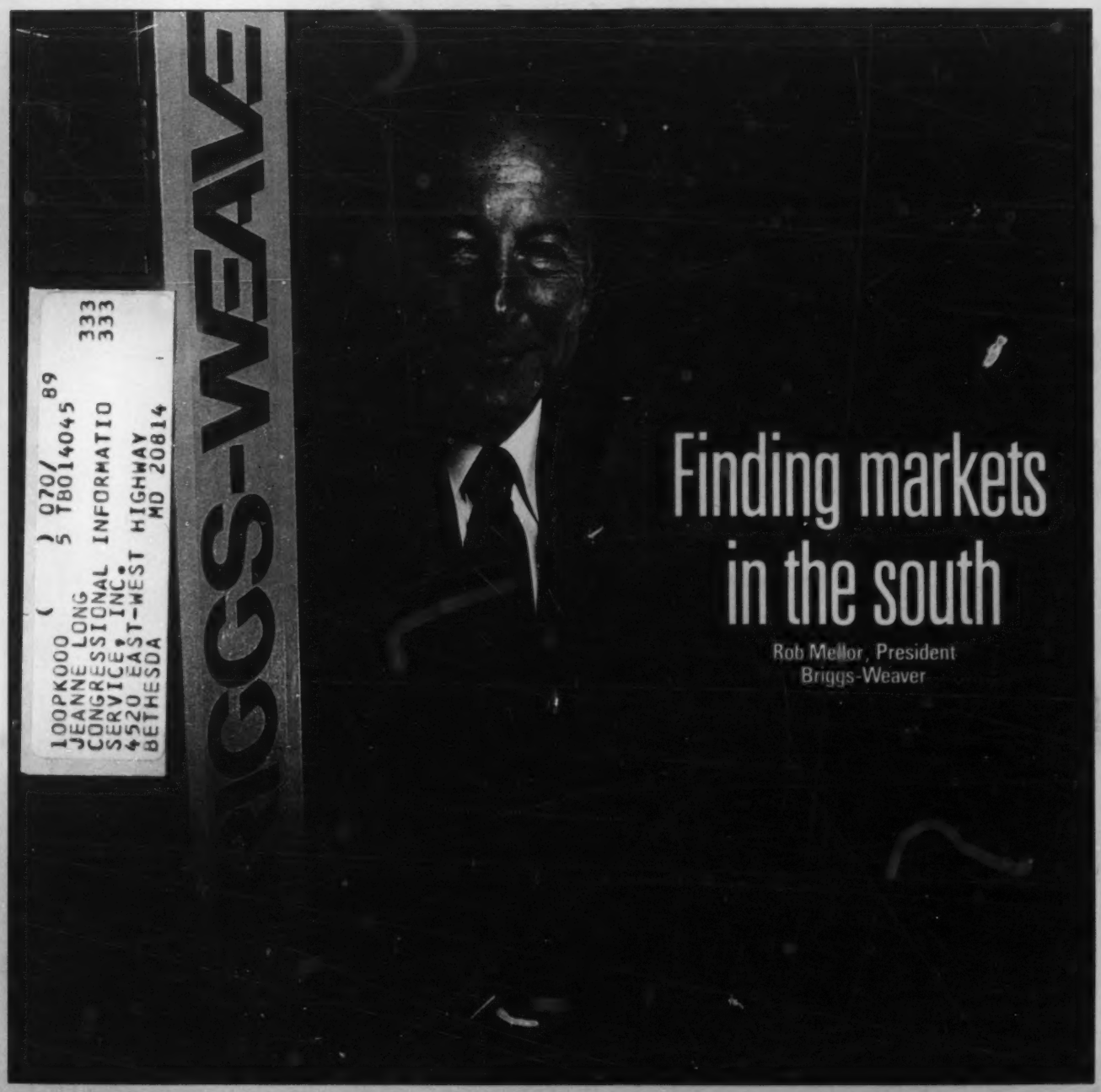
THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

JANUARY 1989

C1850-4
2/1/88

SPECIAL:

Successful fluid power strategies



Finding markets in the south

Rob Mellor, President
Briggs-Weaver

100PK000 ( ) 070/ 89
JEANNE LONG 5 T80140 45 333
CONGRESSIONAL INFORMATIO 333
SERVICE, INC.
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 77, NO. 1 JANUARY, 1988 A CAHNERS PUBLICATION

Rob C. Mellor, president of Briggs-Weaver, describes how his company has succeeded in the tough Southern markets.

COVER STORY—SELLING

40 Distribution in the South

Many markets exist for the astute Southern distributor.

MARKETS

81 Modest growth forecast for industrial belting

A report from the NIBA convention.

ECONOMY

99 Bullish outlook for '88

Distributors have reason for sales optimism.

109 Little reaction to "Bloody Monday."

Effect on publicly held distributors.

SALES

74 The effects of captive distribution

Northeast Manufacturers-Distributors convention highlights.

MANAGEMENT

39 Editor's Opinion

69 PT distributors profit in automation

Power transmission distributors are paying more attention to microchip technology.

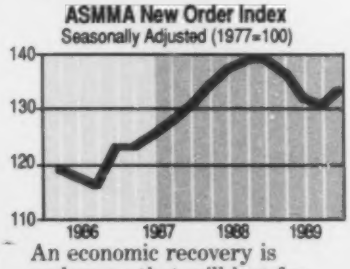
113 Maintaining a competitive edge

How to get orders from cost-conscious customers.

117 Meeting your goals

Tips for how to get the most from an off-site meeting.

167 Business Report



An economic recovery is underway that will last for the next 12 to 18 months.

169 Supply Outlook

Supply conditions tightened in '87; expansion in '88.

174 Clifton on Management

Distribution Cost Accounting.

SALES & MARKETING

87 Selling Fluid Power

Win fluid power sales by focusing on customer goals; An ID special report from the National Fluid Power Assn. annual meeting.

123 Strictly for Salesmen

In order to negotiate, you need to know what the customer really wants.

DISTRIBUTOR'S UPDATE

7 Distribution Briefs

A capsule look at the latest happenings in distribution.

9 News

Reagan administration lifts tariff on portable power tools; first indictments in bolt investigation.

28 Calendar

31 Washington

Anti-business agenda set by Congress for '88.

35 Letters

125 Association News

172 Advertisers Index

PROFITABLE IDEAS

103 Auto i.d.

How bar coding increases data entry accuracy 1,000%.

127 Computers

Desktop publishing.

129 Products for Profit

A look at the latest products available from suppliers.

155 Literature

Up-to-date catalogs and brochures from manufacturers.

FINDING MARKETS *in the* SOUTH

Nationwide, savvy distributors find business in the shadows of traditional markets, and in the oil-dependent South, entrepreneurs are turning adversity into opportunity.

By John G.F. Bonnanzio
Associate Editor

When the Southern Industrial Distributors Assn. meets in Dallas this month, discussions are likely to center around a 5-year decline in oil markets and increased competition. Tales of the cross-town rival closing shop may also be exchanged, though there will be little joy in recreating such battles.

Underlying these tempered emotions is an understanding of why the competition has fallen. The pervasive attitude is not one of victory but, rather, trepidation. After all, industrial distributors do not create business, they serve it. And if the local metal stamping shop can't compete with foreign manufacturers, there's little reason for a distributor to believe that finding a new customer is as close as a well-directed phone call.

In the first part of this report, ID analyzed the economic development packages of all 15 southern states and conducted interviews with industry analysts, economists, association leaders, and those who understand the dynamics of business best, industrial distributors.

The purpose of this effort is to encourage the distributor to look for niche markets in traditional industries, as well as locating business that might otherwise be overlooked. In oil belt states, distributors have had to scramble to maintain revenues, and their shared experiences serve as a valuable lesson to others, regardless of geography.

It is hoped that the collective observations provided will help ignite the kind of creative thinking needed to enhance the distributor's business. Successful Southern distributors (indeed those in every region of the U.S.) have left no stone unturned in their zeal to find new markets. We have tried to do the same.

TEXTILES: FOR SOME, A SUCCESS

The good news is that American textile manufacturers have invested heavily in new machinery, and domestic market share is being won back from the Far East. The bad news is an old, familiar story. Modern equipment means fewer breakdowns, employees and mills.

"We're very optimistic about the outlook for the textiles and apparel industry," says John Pickler, director of research for Wheat First Securities. Highly regarded for its expertise in textiles and southern markets, the Virginia-based investment bank cites two reasons for strength in textile mills, which are running at near capacity.

First, the decline in the dollar overseas has made U.S. products more competitive. Second, foreign manufacturers cannot respond quick-

V I R G I N I A

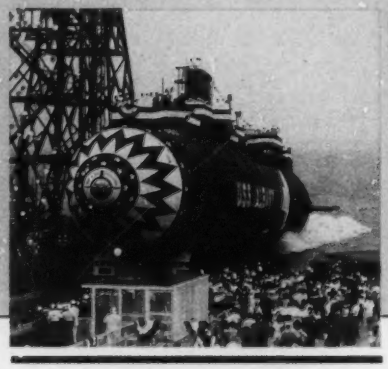
Strong, stable and diverse

If Virginia were a business (which some say it is), it could be considered the smartest run conglomerate in the nation. After all, anything that a state could offer its people, Virginia seems capable of providing.

Manufacturing: Some 5,500 businesses employ 427,300 people —far and away the largest share of the state's workforce. Virginia's residents are also among the highest paid and best educated in the South. Unemployment was only 5.1% in 1986, and Virginia's ability to attract and keep such high-technology behemoths as IBM, ITT, GE, GTE, and Comsat is, in large measure, responsible.

Virginia is also home to traditional heavy manufacturing and most companies are doing well. The Newport News Shipbuilding yard is the only U.S. facility large enough to build nuclear aircraft carriers (one is under construction, and two are under contract). Additionally, Goodyear operates the world's largest radial truck and aircraft tire plant in the state.

In fact, since 1950, Virginia has surpassed the nation in manufacturing growth. Gains in electric and electronic equipment, transportation equipment, printing and publishing, petroleum, rubber, plastics, and non-electrical machinery contributed nearly $50 billion in shipments to the state's economy.



Government: Every good corporation has at least one customer that's rock solid, and Virginia has the federal government. With the exception of Hawaii, no other state is impacted more, relative to its size. In 1986, 170,000 military personnel were stationed in the state; 169,000 civilians worked for the government within state boundaries; and another 60,000 lived in the state, but worked outside in metropolitan Washington, DC. If that weren't enough, Virginia and its local municipalities employ their own army of bureaucrats, and they're more than half a million strong.

But business, like states, doesn't prosper unless people are producing things other than paper. Here, too, Virginia fares well. In the Port of Hampton Roads, three new high-speed container cranes and an agreement to deepen its harbor have attracted 15 new shipping lines in the past 3 years. Foreign trade traffic will bring some $300 million annually to state coffers, while employing 114,000 people in virtually every job description.

. . . Bureaucrats, technocrats and a nuclear navy help keep Virginia's economy afloat . . .

ly enough to the frenetic nature of the American apparel marketplace. Consumer tastes can change overnight, and domestic sources have taught themselves how to react to shifting consumer demands. "Domestic mills," says Pickler, "are embracing quick response. They can now produce on an as-ordered basis, which allows the retailer to reduce expensive inventory."

According to George Wino, chief economist for the American Textile Manufacturers Institute, quick response has eliminated $12 billion in the inventory pipeline. Such market agility, however, is not a panacea for the industry and many considerable obstacles, such as labor, persist.

Although mill products are generally not labor intensive, wages impact pricing, particularly when the disparity is great. Wino points out that in 1987 the average American textile worker earned $8.81 per hour in total compensation. While not exactly lucrative employment, wages compare favorably with countries that have been steadily gaining U.S. market share. For example, in Singapore a textile/apparel worker averages $1.94 per hour, in Hong Kong $1.87, and in Korea $1.09.

Such differences have had an obvious impact. Import penetration is approaching the 50% mark says Wino, noting that between 1980 and 1986 offshore sourcing has tripled. "China is now our number one supplier of textiles and apparel," he says, "and they came from nowhere just 15 years ago.

"I think we can produce textiles better than any other country in the world," says the economist, "the problem has nothing to do with productivity, but [with] levels of wage."

LOOKING FOR FRAYED EDGES

Fortunately, U.S. output per textile worker has been increasing by 4.5% annually (compared with 2.7% in manufacturing), and the value of apparel shipments (after adjusting for inflation) was 3% higher in 1987 than in 1986. Here credit is due the manufacturer. During 1987, a record $2 billion was invested in new equipment, and, for the distributor, that means keeping a watchful eye on plant maintenance, repair and operations.

"Once the new equipment starts wearing out," says Charles Cate, president of Associated Industrial Supply Co., "they'll be needing new parts, and we'll be there to sell them." Headquartered in Columbia, SC, this general line distributor, which operates eight branches in three southern states, remains cautiously optimistic about textiles' future. "A year or two ago they shut down a number of plants in the area that have not reopened and probably never will. So that depressed the industrial distribution business in this area.

"We're starting to make up for textiles with some new industry that has moved into the area," says Cate. Among them, he points to a number of auto-related businesses and a fiber optics manufacturer, as well as a computer company. While Cate notes that his product line is not

FINDING MARKETS in the SOUTH

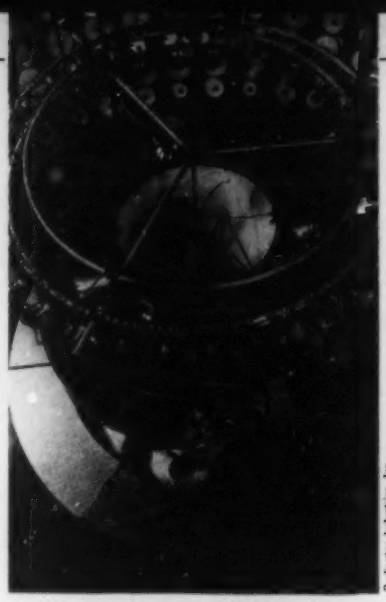
ideally suited for technology businesses, he's far from asleep at the helm. "We've got to adapt our company to a high-tech environment," he says confidently, "and will."

AGRI-BUSINESS: COTTON IS KING

The nation's agricultural businesses have been getting a lot of attention. While farm foreclosures steal the headlines, tobacco companies have been drawing fire, and paper mills have been losing market share to Canada, Europe and, you guessed it, Japan.

Thanks to India, China and mother nature, Southern cotton growers are having a good year. While crops were off in the Far East, the Mississippi Delta finally got the rain it needed, and demand for the cotton boll grew while synthetic fibers lost ground. This has made farmers in 17 cotton-producing states very happy, as prices have soared from a 1986 low of 25 cents per pound to more than 70 cents today.

Much like other commodities, cotton seems to have that ability to make or break a business overnight. From his home office in Columbus, GA, Pierce Massey knows enough to keep attuned to farming markets but prefers to replenish his income on more reliable businesses like forest products, pulp and paper, textiles, food processing, and cattle operations.



Burlington Industries, Inc.

. . . Modern textile equipment is the defense against the $1.09-per-hour Korean worker . . .

DOWN, BUT NOT OUT

Massey's Industrial Bearing & Transmission, a specialty distributor of bearings, transmissions and fluid power, also has locations in Dothan, AL, and LaGrange, GA, which allows his business the kind of diversification it needs in the event of a downturn. From his Dothan branch, Massey principally serves forestry, paper, automotive, and electronics, while agricultural products comprise about 10% of his business.

"Cotton is no longer king," said Massey, "but it's still a factor. The combine," he says, "is just loaded with power transmission and bearings." Cotton pickers and peanut combines, he explains, have roller chains, bearings, hydraulics, V-belts, sheaves, and sprockets in large numbers. And when one of them breaks down, says Massey, "it could be a pretty good bit of business."

Other agri-based businesses in the South seem to be faring well, says analyst John Pickler. Some of his favorites include the forestry sector, pulp and paper, and, specifically, furniture manufacturers. "Trends in the furniture industry are actually quite positive," he says, while the problem of obtaining suitable woods has been the only difficulty that industry has experienced.

TENNESSEE

A distribution hub

Although there are more endearing state slogans, Tennessee (along with Indiana) now likes to think of itself as "America's Distribution Center." The reason for this rivalry is rooted in a simple four-letter word: jobs. Comfortably positioned between the industrialized North and the Gulf of Mexico to the south (Chicago and Mobile are both 450 miles away), Tennessee is within 500 miles of 76% of major U.S. markets.

Since 1985, Japan's Nissan has been located just outside Nashville in a town called Smyrna. In its first year there, the Japanese auto manufacturer produced 43,810 cars. Based on *Ward's Automotive Reports*, 1987 production suggests a banner year with 136,000 cars rolling off the lines of the $850 million plant. But Japanese investment has not stopped there. Bridgestone Corp., the world's third largest tire manufacturer, has invested $100 million in its 160-acre LaVergne tire facility. Meanwhile, total Japanese investment in Tennessee of $1.3 billion employs 9,000 people in 31 manufacturing and 24 sales and/or distribution operations.

The state's real windfall, however, has not come from overseas but

A Spring Hill home: Saturn and 6,500 GM workers will soon be neighbors of the Haynes Haven farmhouse.

In Tennessee, a general line distributor has also noticed the relative strength of the furniture industry, noting that "woodworking seems to be holding up real well." Unabashed about his company's willingness to improve the bottom line, he adds, "casket manufacturers are doing a hell of a job." What, if anything, distributors can do to increase business there is a matter of speculation.

Timber falls as prices soar: Forest products remain a valuable crop, as furniture, paper, pulp, and caskets are always in demand.

OIL, GAS AND COAL COULD HEAT UP

The specter of revolution and war on a dozen Middle Eastern fronts is, in large part, responsible for the world oversupply of oil. (After all, wars and military hardware are strictly cash purchases.) As a consequence, idle oil rigs throughout Gulf Coast states have wreaked havoc on the South's economy.

Witness the Arab oil embargo of 1973, and the volatility of that commodity becomes painfully clear. Even more difficult to accept, however, is that the U.S. has learned too few lessons. Although less dependent on oil imports than in the past, America is still a net importer, and much of this nation's fortunes (particularly those of oil patch states) still rests precariously on the whims of sheiks, mullahs and Silkworm missiles half a world away.

Closer to home, the southeast part of the U.S. is one of the most competitive markets for oil as well as the most depressed (see p.44). Further, natural gas suffers from the same problem of global over-supply as oil, and, to compound matters even more, coal demand has plummeted in the wake of cheaper, more efficient and cleaner energy sources.

"In February 1986, the oil business came to a screeching halt," says Robert Hunt of Ft. Worth's General Industrial Supply Co. "We did more business in January and February of what we call our oil industry business

rather north from Detroit. In August of 1985, General Motors announced that it had chosen Spring Hill, TN, as the site for its $5 billion automobile factory. Designed to take the Japanese head on by deploying advanced technology and self-directed production teams, GM's pricetag on its new line of Saturn cars will have to eliminate a $2,000 cost advantage the Japanese currently enjoy on each and every family-sized automobile they produce. Due for completion in the summer of 1990, the Saturn plant will have a production capacity of a quarter of a million vehicles and will provide the area with 6,500 handsomely paid jobs.

CAMBAR JOCKIES FOR POSITION

The sight of 6,000 workers using abrasives, pneumatic hose, power tools, materials handling equipment, safety and security supplies, welding equipment, and the like is not a thought that has been lost on distributors. In February of last year, Cameron & Barkley moved into the state with its purchase of two distributorships: Rogers-Bailey & Browning, a Chatanooga power transmission specialist, and Knoxville's Browning Belting & Supply. At that time, a company spokesman said that CamBar was simply interested in obtaining systems contracts from large industrial plants. No doubt. With 140 inside and 160 outside salespeople to keep busy, it's probably a safe bet that somebody has thought to pay the plant a courtesy call.

Distributors not already in on the action need not despair. According to Saturn spokeswoman Laurie Kay, GM is still encouraging vendors interested in supplying the facility's MRO requirements to contact Saturn directly. Additionally, industrial distributors are not necessarily closed out of GM's OEM purchasing either, but it would be wise to get moving fast.

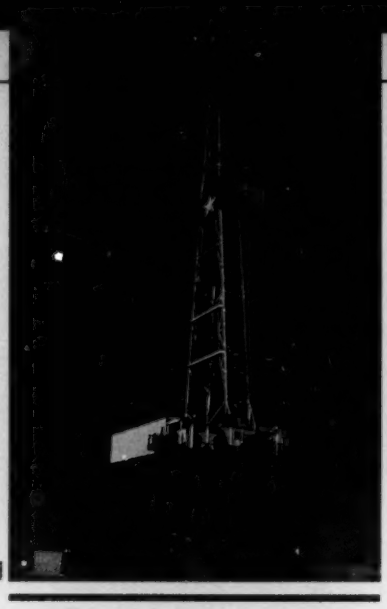
Suffice it to say, Tennessee appears to have everything the auto industry needs: a competitive labor force, right-to-work laws, plentiful natural gas and coal production, and a highly favorable tax structure (distributors are exempt from all property taxes on inventories). The state will continue to grow as a prime manufacturing location.

LANDING BUSINESS WITH SATURN

Although a series of meetings were begun in March of last year for companies interested in distributing MRO products, Saturn has indicated that inquiries should be forwarded to:

MRO Suppliers:
Mr. Terry DuPuis
Saturn Corp.
P.O. Box 488
Spring Hill, TN 37174

OEM Suppliers:
Material Management Dept.
Saturn Corp.
P.O. Box 7025
Troy, MI 48007



than we did the other 10 months of the year."

Such news is hardly surprising. Like much of the South, many distributors are intensely dependent upon the good fortunes of the oil industry. In the west Texas market of Brownwood and San Angelo, Hunt describes business as "absolutely dead," adding that they're happy to see a customer or two a day walk into the "store."

To overcome the devasting effects of idle oil rigs, General Industrial has moved fast and looked hard for new markets. "Business appears on the upside of good," Hunt says confidently, having found business in such diverse markets as institutional-type furniture, residential construction and even a dog food manufacturing plant.

In addition to selling a full line of coated abrasives, cutting tools, hand tools, power tools, and paints, the company is also heavily into the electrical market, seeking out automotive, aircraft and machinery companies in the area. "If they buy," says Hunt, "we'll cover them. We're not very selective."

. . . To overcome the devastating effects of idle oil rigs . . . distributors must move fast and look hard for new markets . . .

Few businesses in the South are. Even the banks in Texas are in trouble because of monies loaned directly to the oil industry, as well as mortgages based on the prosperity of the oil market. On top of it all, a mammoth glut exists in commercial real estate, which, in turn, has virtually halted all new major construction. "Where once you saw cranes all over the place in Houston," said Hunt, "now you don't see any."

PROBLEMS UP NORTH

If it's true that misery loves company, Gulf Coast distributors might consider taking a trip to the coal mines of Kentucky and West Virginia. Victim of the same oil glut that has ravaged their Southern cousins, the coal industry is being beaten by the $18 barrel of oil and overseas competition.

Despite weakness of the dollar, the U.S. has not been a low-cost producer of coal. Says John Pickler of Wheat First, "demand has not been very good for U.S. coal export," adding that Australia, Columbia and South Africa are all lower cost producers. Simply put, he says, "they can produce it and put it in Europe or Japan cheaper than the U.S."

At Smith & Brooks, Inc. in Charleston, WV, President Albert Nester has not taken his state's cur-

PETROLEUM

Praying for the $22 barrel

In recent years, Gulf Coast distributors have had very little to cheer about. From Brownsville, TX, to Mobile, AL, distributors who built their livelihoods on the fortunes of oil have seen good times and bad, but few can remember seeing times like these.

Today, oil is still a boom-or-bust business. From the time it was first pumped from the ground 128 years ago, oil has performed like every other cyclical commodity. Just when it appears that business has dried up, hope gushes forth with every new find and every new rig back in service.

At last count, some 1,101 rigs were operating throughout the U.S. and Canada, versus 762 last year. Despite this increase of 44%, overall rig activity (see chart), which is considered an important indicator of oil services' health, is down dramatically since a 1981 high of 4,233 rigs.

The question therefore persists: what will it take to get Southern oil rigs out of their mothballs and into the fields? And when can Southern distributors, who are so terribly dependent on this market, look forward to improvement?

Ronald Londe, a securities analyst for the St. Louis investment bank A.G. Edwards & Sons, Inc., has his own ideas. "To really get the market moving," he says, "from the standpoint of drilling equipment, rigs and all the ancillary services that go along with it, you're going to have to see oil in the $22 range."

Although Londe cautions that there is nothing magical in this price, he emphasizes that, for the majors to start drilling again, price stability over the next several years is a most important ingredient. The reason—typically it takes 3 to 5 years to get oil or gas production on line. "Anything they do today," says Londe, "won't really offset their bottom line for at least 3 years, at the earliest."

Howard, Weil Financial Corp., a New Orleans broker of oil stocks, views the situation similarly. "What will drive rig activity right now," says market specialist G. Bryan Dutt, "are for the producers

rent problems lying down. Although he admits that West Virginia has only coal and chemicals as major business, he has still managed 4% growth during 1987 while increasing his inventory about 15%.

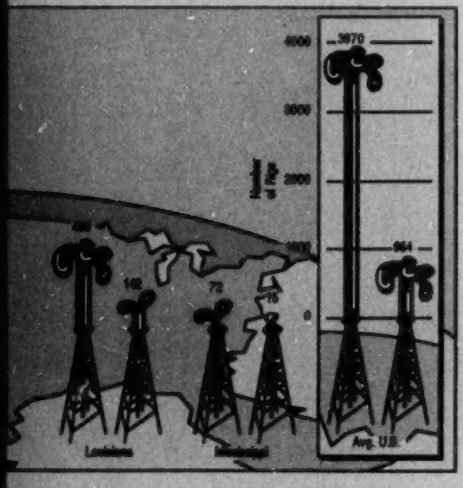
"Competition is very keen down here," he says. "We have the Union Carbides, DuPonts, Olins, FMCs, Monsantos . . . they carry the big stick, and they can dictate volume discounts and demand service," which Nester is only too happy to provide. But because of robotics and automation, productivity has improved, manpower has been lost and there are fewer smaller goods for him to supply to the mines. "Dollars earned," Nester explained, "are going back into the private sector."

Operating throughout the surrounding states of the Ohio Valley, a second branch in Roanoke, VA, has helped to keep his customer base at least a bit more diverse. A "specialty house" of instruments, tube fittings and valves, Smith & Brooks is watching neighboring Kentucky carefully. Noting that Toyota now manufactures cars there, Nester wonders whether more auto manufacturers are to follow. He is also encouraged by some of the good news spilling out of the oil patch.

The sun sets on Gulf Coast rigs: If independent contractors start deep-water drilling, dollars will begin to flow.

As large leasing rights along the Gulf begin to expire this year, smaller independent contractors are expected to begin drilling offshore. Unlike inland wells, deep-water drilling requires an extraordinary amount of support services, which means cash could once again find its way to shore. Although additional oil and gas finds can only help depress prices further, oil patch distributors will be glad to take the business.

to see price stability. If they see oil at $30 in the next few months, well, that's not enough unless they also see it staying there for a few years." News of increased offshore drilling has, in fact, buoyed the spirits of oil-dependent businesses. This reversal in activity is attributed to the major oils moving to avoid the loss of highly valuable drilling leases. Contracts with the federal government require that drilling take place within the first 5 years of the agreement, or rights to those leases are subsequently forfeited and investment capital lost.



With approximately $1.6 billion in undrilled leasing investments due to expire in the Gulf this year, and another $2.3 billion due by 1990, the majors must quickly decide on a course of action.

Keeping the oils from diving headlong into additional investing are not only depressed oil prices but a severe oversupply of North American natural gas. "If natural gas prices don't improve," says analyst Londe, "companies are going to have to make a lot of hard choices to go ahead and actually drill prospects or simply let their leases expire."

At Schlumberger Ltd., a major oil field services company, George Patent watches U.S.-Canadian rig counts with the same care a physician monitors heartbeats. "Offshore drilling is increasing today," he says, "and I suspect it will continue for the next year."

Some of the majors, he explains, are farming out their leases to independent companies called turnkey operations. "If they hit," he says, "they share in the profits—if they don't, the majors don't have any expenses."

Will Keener, managing editor of the industry journal *Gulf Coast Oil World*, agrees with Patent, noting that Louisiana rig activity has increased "in part because there is anticipation that oil prices will be climbing and in part because oil leases are expiring."

"Oil service companies are completely dependent upon rigs," admits Patent. "That's true for all service companies. We controlled [oil] prices for years, and we paid for it in '73 and '79." Today, he explains, "we're not paying a market-driven price for oil and gas, and so we'll pay for it once again in the 1990's."

If that's not necessarily good news for the consumer, it's certainly good news for distributors who hang their hats on pumping wells.

FINDING MARKETS in the SOUTH

MANUFACTURING: JAPAN MOVES

The quality of life in any country can be measured in large part by the breadth of its manufacturing base. In turn, a large portion of manufacturing is automobile related. Stated simply, if the U.S. cannot build automobiles by itself, for itself, this nation's standard of living could diminish.

Consider two important facts. First, the United States is the world's largest market for automobiles. Second, the Japanese automobile industry is going global. Conclusion? All seven Japanese car manufacturers importing to this country have launched or have scheduled to launch U.S. manufacturing operations by themselves or through joint ventures. The goal is to bypass expenses incurred through importing, deepen market penetration, increase return on investment, and ultimately send American dollars back to Japan in the form of profits.

To the 21,000 Americans who will shortly find themselves working for Japanese automakers, such a threatening scenario seems hardly worrisome. And for the seven states that are the recipients of $4.25 billion in Japanese auto investments, concern has given way to the bulldozers and cement trucks.

. . . While construction proceeds on Saturn's manufacturing plant, GM is actively seeking MRO and OEM suppliers . . .

In Nashville, TN, distributors are particularly pleased to see Japanese investment, as Nissan annually builds 240,000 Sentra cars and 1-ton trucks in a nearby community. Additionally, General Motors' Saturn plant is currently under construction in Spring Hill, which is expected to create 6,500 new jobs at the the factory site alone.

Says Thomas Luken of Nashville's Luken Supply, Inc., "we anticipate a rather awesome amount of suppliers to come into here." But he hesitates when asked if this is a market he's ready to join. "We don't get into the automotive sector," he says, "but probably should. It's a very competitive business, and we just don't give our product away."

However, Luken is already tied to car manufacturing, at least indirectly. His customers include Nissan, Bridgestone and Ford Glass, which, incidentally, supplies Nissan with all its glass requirements. But with a nearby Eaton paper plant closing, layoffs at an aircraft manufacturer and rumors that Nissan will be cutting back on its Sentra production, Luken is not showing all of his cards. "We're a general line supply house," he says. "I don't know if there are many left in the country but we still are, and our business has been very, very good."

Also strong in the South is aerospace construction, particularly in Dallas/Ft. Worth, where General Dynamics manufactures the F-15, and in central Florida, where Martin Marietta recently completed its production of the Pershing missile. Presently, the company is manufacturing anti-aircraft and anti-tank weapons as well as night vision systems and laser-guided artillery.

Interestingly, right-to-work laws, which are widespread below the Mason-Dixon line, have attracted the interest of manufacturers who have too long felt the discomfort of union slowdowns and poor worker morale. "Tennessee doesn't have a lot of unions," said Charles Garrison of the Tennessee Assn. of Business, indi-

CATFISH

The South's brightest star

Question. What weighs 250,000,000 lb, has whiskers, swims in a pond, and can claim June 25 as its own national day?

If you said the catfish industry, you were right. You would also be an exception, because most people, let alone most distributors, are not aware that this bottom-feeding sucker also means big business.

Unconvinced? Then consider this. In 1970, the entire U.S. catfish market was worth a scrawny $6 million. Today, according to the Catfish Farmers of America, its high-water mark has reached $750 million with no sign of abatement.

Sporting 700 members throughout 37 states, the association consists principally of farmers and processors, most of whom use the kinds of items that any other fish and food processing business requires: conveyor belting, power transmissions, hose, sanitary supplies, and materials handling equipment. Modern plants are now capable of processing 1.7 million lb of catfish a week, while feed plants are churning out wheat, milo, corn, and fish meal in quantities that could (pardon the pun) satisfy a whale.

No doubt, catfish has become the most important agri-business to surface in the South. And with business concentrated in Mississippi, which produces 70% of the nation's crop, distributors in Arkansas, Alabama and Louisiana who have already sampled the fish might now be interested in sampling the market.

Catfish Farmers of America

A haul of Mississippi catfish: Not much to look at, but its profits appear attractive.

FINDING MARKETS in the SOUTH

Japanese robots invade Smyrna, TN: Nissan's investment will produce 240,000 cars and trucks a year.

cating that this was a principal reason Saturn invested in the state.

Population forecasts from the Dept. of Labor show that the sunbelt continues to draw residents from northern states and, of course, non-residents from neighboring nations. So even if oil and gas production is never to return to the South in such strength (which by the way, most oil analysts don't foresee), the fact that an increasing number of people want to live and work in the area will, in itself, create more business.

At the Southern Industrial Distributors Assn., Gary Buffington appreciates all too well the plight of his members. "There are still a number of companies out there," he says, "that are in tough straits that haven't been able to replace lost business. There's going to be more shakeout," he says, but admonishes that "the creative ones have moved into some non-traditional markets."

While new markets are a fact of life distributors can learn to live with, moving into a new business is not. The evidence shows that, while distributors can attempt to restructure their product lines to accommodate shifting markets, most companies are restrained by geographic considerations and as many are simply over-leveraged.

Such problems are not easily overcome, and, unfortunately, Buffington's prediction is more a matter of fact than conjecture. But opportunities do exist, while options seem limited only to looking in new directions, examining unfamiliar territory and trying to sense what's just around the corner.

In the meantime, waiting for oil services to recover is not a viable solution. Learning to turn over new stones is, however, a useful start. □

INVESTMENT

State competition for manufacturing investment dollars has become very keen. As the chart indicates, in 1986 Mississippi attracted more new manufacturing money ($444,294,000) than the other six states listed. Although Kentucky and Tennessee were close seconds, the potential impact of new and expanding investment dollars becomes more focused when viewed in terms of investment per resident. While these seven states found an average of $234 for each resident (including those in the armed forces), Mississippi has beaten its competitors with twice the new investment dollars ($482)., Although Virginia has found fewer new investors than the others, the state has maintained its prosperity by virtue of a large military and federal employee population. On the other hand, the chart also demonstrates that Oklahoma is running far behind the pack, with only $108 of manufacturing investment per resident. Short-term prospects for an economic upturn in that state appear unlikely.

Manufacturing Investment in the South (selected states: 1986)

Source: INDUSTRIAL DISTRIBUTION

	Arkansas	Kentucky	Mississippi	Missouri	Oklahoma	Tennessee	Virginia	Average
New manufacturers	56	98	95	98	40	123	76	84
Investment ($ thousands)	42,100	358,895	444,294	190,122	143,468	360,031	110,800	224,101
Expanding manufacturers	257	653	N.A.	163	63	205	86	238
Investment ($ thousands)	572,029	659,329	821,421	1,054,508	213,609	704,880	154,400	597,168
Total investment	614,129	1,018,224	1,265,715	1,244,630	357,077	1,064,911	265,200	832,841
Investment per resident	259	273	482	246	108	222	46	234

Modest growth seen for Industrial belting

Members of the National Industrial Belting Assn. (NIBA) assembled in Canada this fall under the banner "Expanding NIBA's Horizons." By meeting in the competition's own backyard, the organization appears to be putting slogans into action.

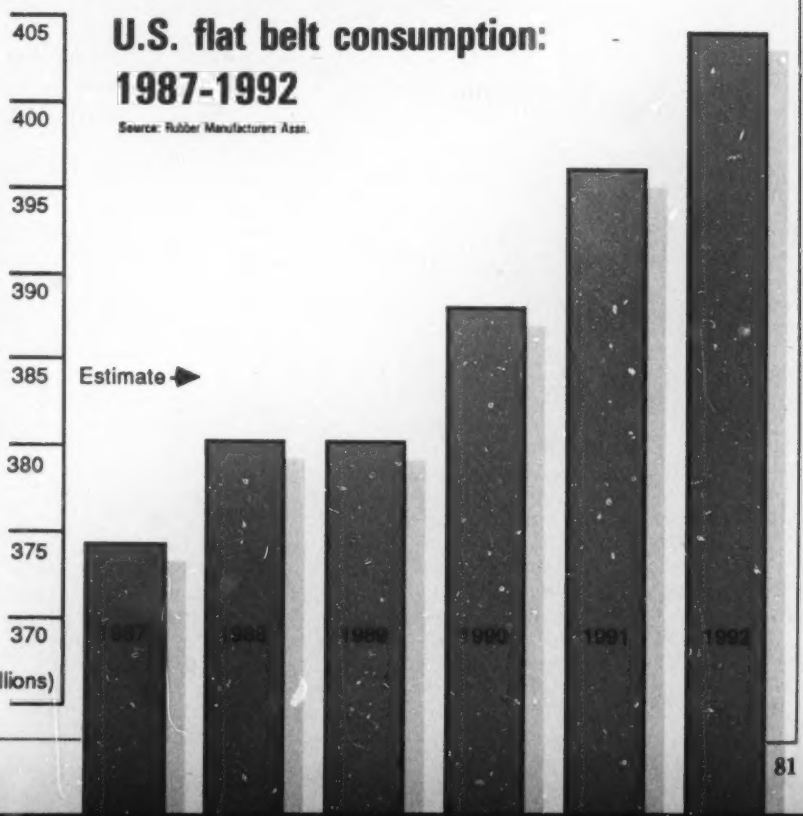
The National Industrial Belting Assn. gathered in Toronto this October amid conversations of new markets and new opportunities. Of course there was the usual talk about shrinking markets, offshore competition and supplier-distributor relations, but, in all, the mood was decidedly upbeat.

Fueling this good humor was, perhaps, positive news contained in a report by the Rubber Manufacturers Assn. (RMA). Prepared for NIBA and presented during the convention, the RMA study confirmed what those in attendance already knew: industry vital signs for flat belting are in good shape for 1988, with an annual growth of 1.6% forecast through 1992.

The factors contributing to the health of flat belting are directly traceable to the markets it serves. Principal among them are mining, auto manufacturing, agriculture, lumber, and highway construction, all of which look strong. In the mining sector, depressed oil prices have lessened the demand for coal, although the industry appears to be climbing out of its 2-year slump.

On the agricultural side, fresh rain and a weak dollar have supported export demand for a number of cash crops, many of which have improved in price. At the National Oats Co. in Cedar Rapids, IA, Ed Hawkins re-

By John G.F. Bonnanzio
Associate Editor



ports that sales for the company's Dura-Buket Div. are strong. "Grain has started to move again," he says. "The barges that had been sitting on the Mississippi full of grain are either being used up or have rotted away. Now farmers are producing again. And even though you don't read about it in the paper, a lot of them are quietly making money."

Flat belting may also thank the federal government for a helping hand, as road construction money for the nation's highways has finally filtered through the system. Meanwhile, American car manufacturers are enjoying record profits, although this has not translated into improved belting sales within the auto sector.

According to NIBA's president, John Wardrop, sales of industrial belting to the auto industry have fallen off as robotics increasingly perform materials handling functions. Also, longer belt life and improved belt utilization have depressed overall belt consumption. "There are some markets that have been declining," says Wardrop, "and, frankly, where they aren't declining, they're getting more competitive."

Other industries are demonstrating vitality that should last the remainder of the year. Demand for wood products has been steadily increasing, and this is reflected in belt utilization for timber products. In addition, says the RMA report, "other positive elements on the economic horizon can be found in such markets as food processing and industries that serve transportation and chemical businesses."

'Some markets . . . have been declining, and, frankly, where they aren't declining, they're getting more competitive.'
—Wardrop

THE IMPORT PROBLEM

On the darker side, the American belting industry has its share of problems. Notably, the invasion of foreign-produced flat belting has rapidly advanced with imports now capturing 25% of the U.S. market. Ten years ago, offshore sourcing accounted for only 10% of market consumption, 15 years ago a scant 8%.

In presenting the study's findings to the belting association, RMA's Dominic Olivieri, Jr. noted that in "looking ahead to 1992 . . . [RMA] did not foresee any lessening in imports and, indeed, felt that the growth rate for imports could very well be higher than that experienced by the industry overall."

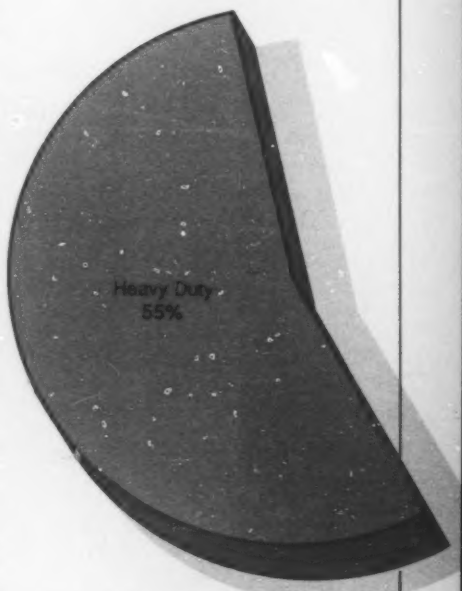
Gnawing at the heels of American flat belt producers are persistent competitors like Switzerland, Germany, Taiwan, and Canada, (the latter two lacking reputations as equitable trading partners). In the case of Canada, however, much of its somewhat tarnished image will soon be improved. With the framework for a U.S.-Canadian free-trade pact successfully negotiated, American manufacturers are looking forward to export opportunities in Ontario—an industrialized province once forbidden to but a few large foreign manufacturers.

This recent trade development is also good news for industrial distributors in close proximity to the Great Lakes. Once particulars of the free-trade pact are hammered out and agreed to by both nations, say trade experts, Canadian importing could be as simple as shipping a product

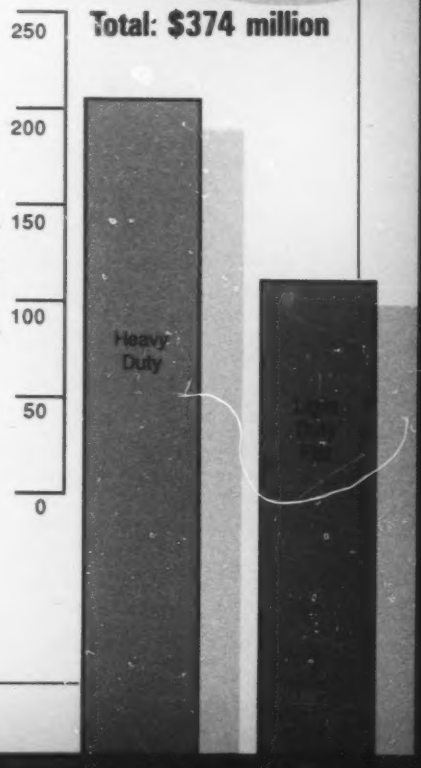
1987 industry purchases of flat belting

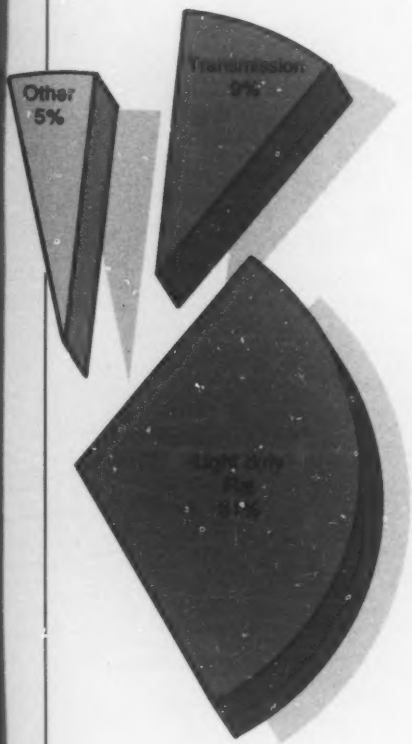
Source: Rubber Manufacturers Assn.

Total dollar volume



Total: $374 million





from Niagara Falls to Buffalo. And if Dept. of Commerce officials have predicted correctly, American small businesses will have as much opportunity to sell north of the border, as large Canadian companies already enjoy selling south of the border.

SOME OF THE ISSUES

Although prospects for a healthy 1988 seem somewhat assured, distributor and manufacturer alike expressed concerns for industrial belting's future. While foreign competition is a noose around the necks of manufacturers, the distributor also shares an interest in evaporating markets. This has led to a degree of tension between the two sides simply because market competition is increasingly fierce. "Distributors are demanding specific geographic territories," commented a manufacturer, "and that's fine, but in return we expect to be their sole supplier, and they simply won't play on a two-way street."

Geographic perogatives and supplier exclusivity would not be an issue if America's industrial base was not in a slow, but persistent, retreat. The RMA reports that U.S. consumption of rubber and plastic belts reached $374 million in 1987, up slightly from 1986 ($366 million). But if such gains appear promising, keep in mind that in comparing 1979 to 1987, consumption increased just 15%, while American exports fell 37% from $27 million to $17 million by 1986. From these numbers one can paint a troubled picture; belting manufacturers are losing ground offshore as well as at home, and distributors are finding fewer large-volume purchasers relative to where the industry once stood.

Says NIBA's Wardrop, "when talking belting, the word 'commodity' is tossed around alot. And I guess that gets you into a mindset of well, there's nothing else we can sell. But we've been trying to address that in our programs, that we must really sharpen up our business practices."

One step in that direction, or really several steps, has been NIBA's on-going effort to assist its members in evaluating their businesses' performance. Plans include a quarterly sampling (conducted anonymously) of inventory levels, sales, receivables, wages, and salaries.

NIBA's technical advisory committee produces an engineering handbook on the proper fabrication and operation of flat conveyor belting ($25), while the marketing committee has a three-part videotape program designed to improve the product knowledge of entry-level employees (see box).

According to Tom Richardson, president of Conveyor Accessories, Inc., the 15-minute videos cover lightweight belts, heavy conveyor belts and mechanical belt fasteners. The tapes, he says, are also ideal for showing to potential customers both on the road and in a distributorship.

Wardrop emphasizes that distributors as well as manufacturers need to strengthen themselves internally by cutting overhead without decreasing services. "The role of the distributor is changing," he observes. "We really don't sell just belting; we sell an engineered product."

Externally, Wardrop says, "we must have a better understanding of where the markets are, and to do that, a continuing relationship between supplier and distributor must be established along non-emotional lines. Certain activities and relationships make sense. Good, strong discussions, with either your manufacturer or distributor partner . . . that's the key." □

How to order NIBA's videos

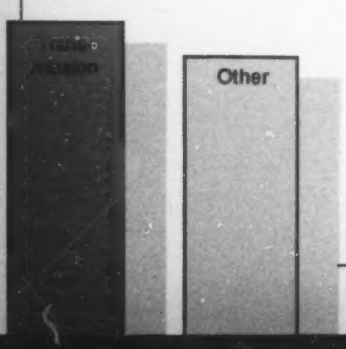
NIBA's video lessons are designed to acquaint employees with products, terms, and identification of products sold through industrial belting distributors and manufacturers. The lessons are accompanied by an administrative guide and include suggestions for use of the learning system, employee training record forms and reviews.

Tapes are available in ½-in. VHS and Beta formats and are sold as sets only. Demonstration tapes are available for 2-week examinations at $15, which will be applied to the purchase price.

NIBA members . . . $450
Non-members . . . $600*
Reduced prices for multiple orders.

Contact Nancy Leavens, National Industrial Belting Assn., 1900 Arch St., Philadelphia, PA 19103.

*Check must accompany order.



REDUCING THE Cost of SALES

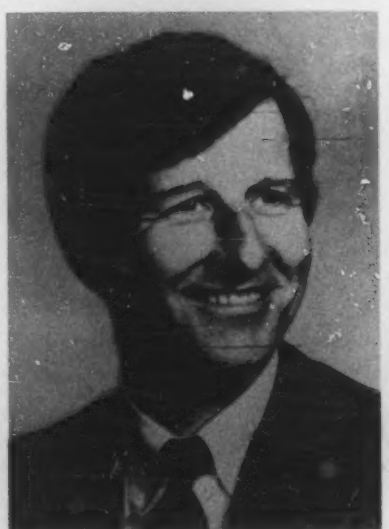
Faced with a sales expense nearly 40% higher than that of their electrical colleagues, fluid power distributors studied management techniques with an eye toward operating more efficiently.

By George M. Fodor, Senior Editor

According to statistics compiled by John Pearse, president of Pearse-Pearson Co., Inc., a Farmington, CT distributorship, a typical fluid power distributor allocates 36.8% of his gross margin dollars to cover the cost of sales. Conversely, Pearse reports, typical electrical distributors invest only 26.9% of their gross margins to pay for sales.

This nearly 40% differential, Pearse says, is one reason fluid power distributors "are not getting rich" despite having "aggressively streamlined their operations." Further, such high sales expenses contribute to the industry's declining personal productivity ratios (PPRs). By dividing total gross margins into total salaries, Pearse shows that fluid power distribution PPRs have dropped from 62.5% in 1981 to 61.0% in 1986.

Pearse's remarks crystallized the concerns of many who attended the Fluid Power Distributor Assn.'s (FPDA) fall conference, held in St. Louis Oct. 4-8. John Monoky, president of Monoky & Assoc. (Toledo, OH) and a popular industrial marketing and sales management consultant, expanded on the sales expense issue by specifying procedures for controlling costs.



John Monoky stresses adopting a new view of inside salespeople as a key component in reducing the overall cost of fluid power sales.

A NEW BALL GAME

Monoky reviewed how a changing business environment is leading to a changing selling environment and how these changes impact sales management. Basically, Monoky sees economic, political and legal, competitive, technological, and social concerns creating a new arena in which fluid power distributors do business.

For example, Monoky explains, "new products and new players, including manufacturers going direct," mean that distributors have to know more and be more aggressive.

At the sales end, Monoky contin-

ues, managers must realize that "customers have more options, there is less customer loyalty, users are more conscious of value, and individual customer needs differ greatly."

Given this changing environment, Joseph Gallagher of the Walter B. Gallagher Co., a distributorship in King of Prussia, PA, says that managers should focus "on the quality of sales calls, not quantity. Salespeople," he continues, "have to be prepared to discuss appropriate applications with a particular audience."

Technical expertise, planning and follow up, experts agree, are now the key skills fluid power sales teams need. F. Richard Matthews, Automatic Switch Co., explains that manufacturers and distributors are "both members of a team, and neither one is more important than the other."

In detailing what manufacturers expect from a distributor's salesperson, Matthews emphasizes the need for "pre-planning a call, discussing potential problems well ahead of time, focusing only on the manufacturer's products, plotting follow-up strategies, and setting a time and agenda for the next meeting."

Therefore, sales success in today's fluid power market, according to Monoky, depends on a "better understanding of customer needs, better selectivity, better selling strategies, and better time and territory management." This means, he says, that "the sales program must be an integral part of an overall marketing program."

MANAGING THE TEAM

Distributors often pick precisely the wrong person to be sales manager, Monoky contends. "The sales manager is typically a salesman who continues to function as a lead salesman, when what we ought to have is a manager committed to managing," he says.

A true manager, according to Monoky, would be able to recruit, train and motivate a team of both outside and inside salespeople who, by working together, could balance on-the-road expenses with in-house efficiencies. This balance, in turn, could significantly reduce the distributor's cost of doing business.

Monoky explains that it is crucial that inside salespeople not be hired "under the assumption that when they grow up they'll be something else, such as an outside salesperson. Inside sales," Monoky emphasizes, "is a career path unto itself.

"We have a group of people here who could sell a whole lot more, if only we would let them, encourage them," he stresses. "The profile of an inside salesperson differs significantly from that of an outside salesperson, but when we give the inside sales force technical expertise and an understanding of customer needs, then inside salespeople *will* be able to upgrade and order, and they *will* be able to cross sell so as not to lose an order" (emphasis added).

SPIRITED DEBATE

With the cost of an outside sales call approaching $200, and with 63% of such calls spent talking with someone who can't buy, a typical fluid power salesperson who makes 1,000 calls a year "wastes" $126,000 worth of time in non-productive selling.

Figures such as these stimulated

Distributors rate themselves as managers

Management practice	Very good	Good	Average	Poor	Very poor
Setting goals and standards	5	17	45	22	11
Coaching and counseling	11	40	39	5	5
Motivating	17	44	39	—	—
Developing people	11	50	28	11	—
Evaluating	—	28	50	17	5
Recruiting and selecting	5	46	33	11	5
Training	11	45	33	11	—
Organizing	22	28	39	11	—
Compensation	22	40	33	5	—
Overall rating	11	40	44	5	—

Source: Monoky & Assoc.

In a self-evaluation survey, only half of all distributors rated their managerial skills as "good" or "very good." Note that when it comes to setting goals and evaluating people, fewer than 30% of the surveyed distributors gave themselves above-average ratings.

Source: Monoky & Assoc.

Energy-Saver Air Line Couplings & Fittings!

FREE CATALOG from the industry's most complete line

Yours . . . the original energy-saving Bowes quick-acting couplings with convenient 1/4 turn release. Six end styles and most-wanted sizes for off-shelf availability. Plus fittings, air valves, hose accessories, blow guns, and more! Request Bowes' free 8-page air line equipment catalog. **Bowes Mfg., Inc., 28815 Aurora Rd., Solon, Ohio 44139. (800) 327-7358.**

Circle No. 69

sturdy, lasting profit builders

toggle clamps for your price- and quality-conscious buyers

Bowes rugged toggle clamps meet your customers' needs for high force applications to 18,000 lbs., and give you the most wanted 17 clamp styles for 98% of all assembly, fastening, and fixturing needs. Users enjoy easy actuation due to high clamping-to-hand-force ratios. Oversize heat treated steel pins, heavier cross sections, and all-welded construction assure highest holding capacities for fast, easy setups. Bowes 12-page catalog shows 17 styles from 400 lbs. holding capacity. Request yours today!

bowes
MANUFACTURING, INC.
28815 Aurora Road
Solon, Ohio 44139
(800) 327-7358
(216) 248-5990

Circle No. 70

lively give and take among FPDA conference attendees. During an extended panel discussion and question-and-answer session, attendees focused on the quality of support manufacturers supply and how that support impacts sales success.

To make the sales process more productive, distributors discussed mutual evaluation of salespeople. In essence, this calls for both the distributor's and the manufacturer's representatives to analyze and review each other's performance during a sales call.

John S. Gardner, president of GS Hydraulic Sales, Inc. (New Berlin, WI), has been elected 1987-88 president of the Fluid Power Distributors Assn.

Several manufacturers concurred, citing the need for two-way feedback to eliminate confusion and to help maintain consistency.

Underneath this discussion ran the notion that fluid power technology is losing market share to alternative drive and control methods. To stem this flow of business, L. David Black, president and CEO of ARO Corp. (Bryan, OH), challenged attendees "to re-invent our partnership to become more customer driven."

Focusing on customers' production goals, in turn, requires technically astute salespeople, both in-house and in the field, who are creative enough to apply existing products in new ways. Doing that might not lower the cost of an individual sale, but it is expected that delivering solutions to users who need them will increase the percentage of successful sales.□

Use Marson's network of eight factory warehouses to get immediate delivery of a wide variety of rivets in steel, aluminum, and stainless alloy. We also have the complete range of hand and air-hydraulic setting tools you need to make things **Klik**. To place your order or for further information, phone or fax any location

CALIFORNIA	ILLINOIS	NEVADA	TEXAS
213-927-2636 FAX: 213-927-5489	312-541-0322 FAX: 312-541-0135	702-331-2100 FAX: 702-331-3281	713-491-6150 FAX: 713-664-1436

FLORIDA	MASSACHUSETTS	TENNESSEE	WASHINGTON
305-339-3996	617-884-7760 FAX: 617-884-1804	901-454-1980 FAX: 901-454-1974	206-762-8832 (In Oregon) 503-248-0737 FAX: 206-762-8492

marson **MARSON CORPORATION**
Fastener Division
Chelsea, MA 02150 1-800-343-3633

Circle No. 72

ELECTRO, the premium line of
ABRASIVE GRAIN & FINISHING POWDERS
that wins permanent customers for you

Add to your distributor profits with Electro's quality line of abrasives:

- Silicon Carbide in all sizes
- Alumina Powders
- Cerium and Tin Oxides

Stock for an extensive market: lapping, polishing, tumbling, slurry-sawing, and vibratory finishing of metals, glass, ceramics, electronic materials, and precious stones; as well as for nonskid, abrasion-resistant compounds, blasting carbides, numerous other applications.

Contact Al Ramming regarding new distributorships, application assistance, and prices.

ELECTRO ABRASIVES CORPORATION
701 Willet Road
Buffalo, N.Y. 14218
Tel: 716-822-2500
Fax: 716-822-2858

Predecessor & Successor to Ferro Corp. Abrasives Division

ELECTRO ABRASIVES

Circle No. 73

BUSINESS REPORT

Recovery holds steady course

OEM output will continue to expand through '88

Despite the growling of the Wall Street bears, the industrial economy continues to expand. The production indices that measure the output of the OEM industries have been rising steadily since the first quarter of '87. The aggregate index for the OEM industries computed by Cahners Economics was up 3.3% in '87.

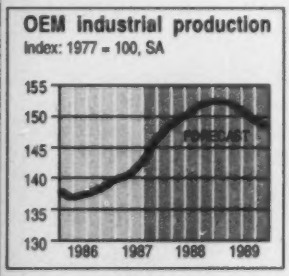
Increases in shipping activity have closely followed production increases—total OEM shipments were up 4.0% in '87. While last year's increases were not spectacular, they represent the beginning of a recovery that will last for the next 12 to 18 months.

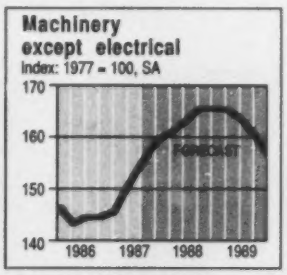
Durable goods backlogs offer further evidence that the recovery will continue. Total non-defense backlogs have expanded over $11 billion in '87. Industrial supplies, materials and components have shown strong gains, and the traditional machinery markets will continue to expand. These backlogs will reach their peak of $419 billion at the end of '88.

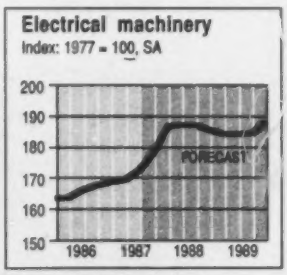
This expansion in the OEM will benefit the majority of manufacturers; however, some sectors will do better than others. The largest percentage gains in production will be in the non-electrical and electrical machinery sectors. Output of non-electrical machinery was up 4.1% in '87, and electrical machinery increased 4.6%.

Because these sectors represent major markets for distributors of industrial equipment, these trends bode well for increased sales in '88. Distributors' sales figures for the first 9 months of '87 indicate that sales in most regions are corresponding to the expansion in the economy.

The outlook for the industrial sector is for continued growth through the rest of the year. Exports of U.S. machinery are jumping, and domestic spending on producers' durable equipment is starting to rise. Production in the OEM sector will expand another 7 to 8% in '88 before leveling off in '89. □







SALES BY REGIONS (% Change)	SALES (%) FIRST 9 MOS. '87 vs. FIRST 9 MOS. '86			RECEIVABLES (# of days) SEPT. '87 VS. SEPT '86						INVENTORIES (% of responses)		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both	Inc.	Remain The Same	Dec.
NEW ENGLAND CT, RI, MA, NH, VT, ME	—	19	8	38	42	42	38	43	53	33	56	11
MID-ATLANTIC NY, NJ, PA	8	18	16	42	42	48	42	44	44	23	61	16
SOUTHEAST DE, DC, MD, VA, WV, GA, NC, SC, FL	13	12	0	44	41	50	44	76	47	27	50	23
NORTH CENTRAL OH, IL, IN, MI, WI	4	3	16	38	44	46	39	45	46	12	47	41
SOUTH CENTRAL AL, MS, KY, TN	11	16	—	48	56	56	48	48	50	23	69	8
MIDWEST MN, ND, SD, IA, NE, KS, MO	7	9	19	35	40	41	35	41	47	14	53	33
SOUTHWEST AR, LA, OK, TX	-11	-7	-6	41	47	50	38	47	43	5	42	50
MOUNTAIN NM, AZ, CO, UT, NV, WY, MT, ID	—	15	11	—	48	40	—	43	33	13	62	25
PACIFIC CA, OR, WA	10	9	0	43	43	41	42	42	40	12	43	32
U.S. TOTALS	9	3	–5	43	43	44	43	48	44	24	52	24

SUPPLY OUTLOOK

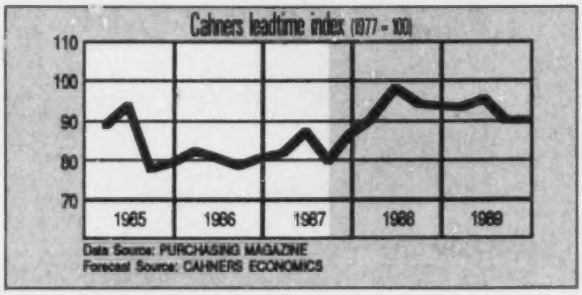
BY WILLIAM C. WOOD

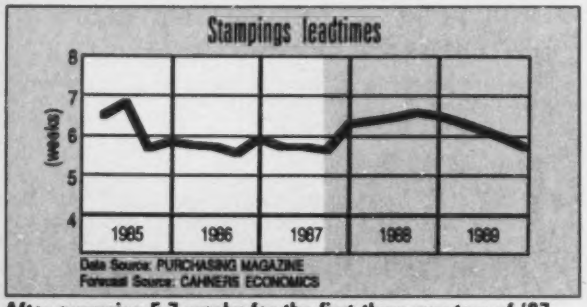
Supply conditions tightened in '87

Leadtime index will stay below historic peak levels

The Cahners Leadtime Index dropped slightly in November (the latest month for which we have data) to a level slightly below that of November '86. A composite of 85 industrial goods, the index is derived from exclusive data furnished by a survey of purchasing managers and agents for the nation's largest corporations. For all of 87, the index rose an estimated 4.4% from the '86 average, indicating that supply conditions tightened moderately last year. The index's average value for the year was around 84—well below the peak level of 136 seen in '79. The index is expected to rise a substantial 12.3% in '88 in response to higher capacity utilization levels, but it will peak at a value of 96—still well below previous peak levels. In fact, as a result of just-in-time programs, better inventory control procedures and increased integration of world markets, it is doubtful that the leadtime index will ever break 100 again. The leadtime index will appear monthly in *Industrial Distribution*. Some key uses of leadtimes are Price Forecasts—leadtimes rise before prices, because suppliers will not raise prices until they are sure it will not hurt them competitively. They will wait and see if the shift in the market is genuine, meanwhile leadtimes have made their telltale moves. Leadtimes are also useful in determining when business conditions are weakening. As orders fall, operating rates will remain the same only as long as there is backlog, but as soon as backlog falls, leadtimes will drop. They can also be useful in alerting distributors to shortages. If leadtimes jump dramatically and stay high for a few months, then there is accumulated pressure on capacity. This means that the peak in utilization is near.

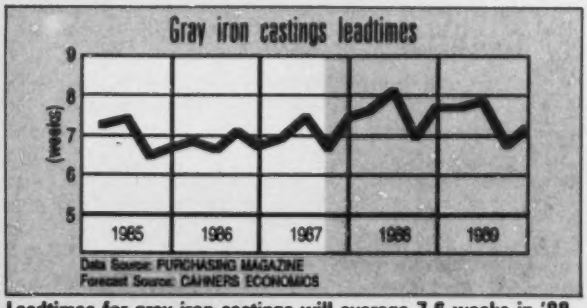
Leadtimes are a source of information that will be of interest to anyone whose system of inventory management is based on changes in conditions.



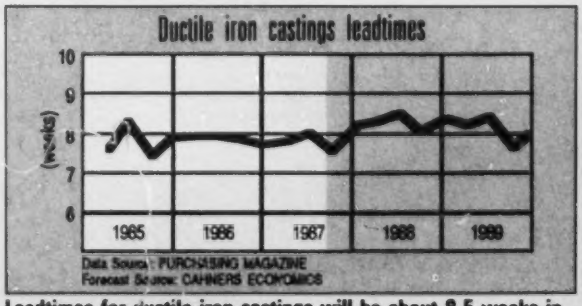


After averaging 5.7 weeks for the first three quarters of '87, stampings leadtimes rose to 6.2 weeks in the fourth quarter. They will stay above 6 weeks for most of '88.

Forgings leadtimes will stretch out slightly in '88, averaging just under 9.5 weeks.



Leadtimes for gray iron castings will average 7.6 weeks in '88 after averaging 7.1 weeks in '87



Leadtimes for ductile iron castings will be about 8.5 weeks in '88. In '87 they averaged just over 7.5 weeks.

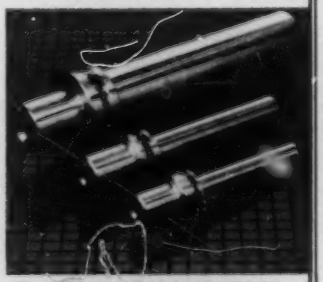
SHIM STOCK IN A CAN... SURE, IT'S EASY TO USE AND STORE, PLUS THE MODERN PACKAGE STANDS OUT IN THE MACHINE SHOP! STAINLESS, BRASS, AND STEEL IN A RESEALABLE, REUSABLE CAN THAT'S DESIGNED FOR THE END USER—THE MACHINIST. THEY ASK FOR IT BY NAME!
SHOPAID
Shim
SHIM-IN-A CAN, HUH? SOUNDS GREAT. I'LL BUY IT. UH, JUST ONE THING... WHAT DO I DO WITH MY OLD COFFEE CANS?
SHOPAID
INCORPORATED
50 Holton Street, Woburn, MA 01801
(617) 933-3000 1-800-332-3000

Circle No. 149

Now You Can Hold Precision Tolerances

Collis/Schunk Precision Chucks and Arbors Guaranteed .00004 T.I.R.

- If you have seemingly *impossible* work holding problems, we may have your solution.
- Ultra Precision hydraulic chucks and expanding mandrels.
- Completely enclosed hydraulic chamber insensitive to dirt and other contamination.
- Guaranteed 100,000 clamping cycles with no gripping pressure loss.
- Don't be mislead by second generation technology when fourth generation technology is available from Collis/Schunk.
- No other hydraulic work holding systems in the market place offer the features and precision of the Schunk precision hydraulic work holding systems.

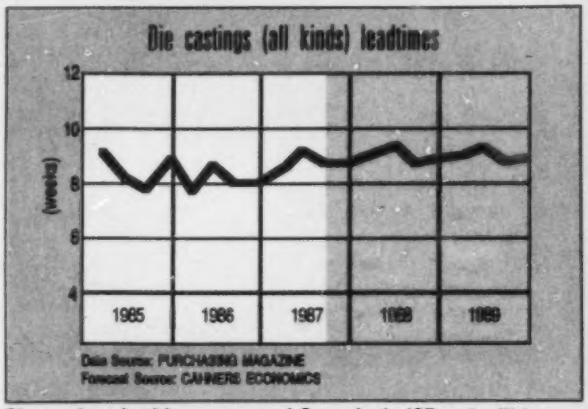


Collis/SCHUNK
PRECISION
Hydraulic Work Holding Systems

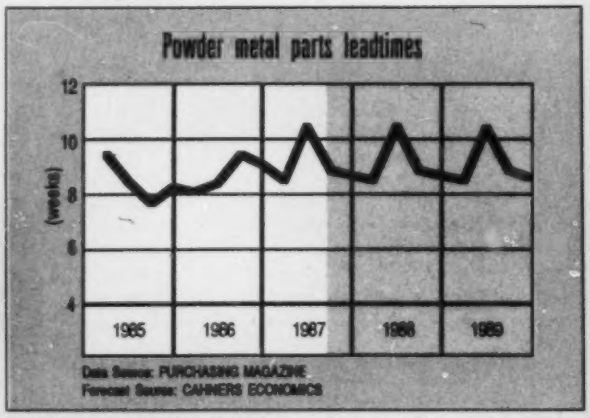
2005 S. 19th Street
P.O. Box 231
Clinton, IA 52732
(319) 242-7731
FAX: (319) 259-8346

Call **1-800-334-6045** for an in-house demonstration.

SUPPLY OUTLOOK



Die castings leadtimes averaged 9 weeks in '87 and will be the same in '88.



Leadtimes for powder metal parts are expected to change very little from '87 to '88.

Fabricated metal production to rise in '88

According to an index released by the Federal Reserve Board, industrial production of fabricated metal products expanded 2.0% in '87. The expansion was less than what was experienced by the industrial sector as a whole. However, the industry should grow 6 to 7% in '88. Fasteners, stampings and forgings will show the largest increases because of the weaker dollar and growth in their end markets. Structural metal products, suffering from the slowdown in the construction cycle, will have little gains in production. As demand for these products increases, leadtimes will stretch out slightly.

Industrial Distribution®, (ISSN 0019-8153) is published monthly by The Cahners Publishing Co., A Division of Reed Publishing USA, 275 Washington St., Newton, MA 02158-1630. Terrence M. McDermott, President; Ellsworth M. Brown, Jr., Group Vice President; Jerry D. Neth, Vice President/Publishing Operations; J.J. Walsh, Financial Vice President/Magazine Division; Thomas J. Dellamaria, Vice President/Production and Manufacturing. Circulation records are maintained at Cahners Publishing Co., 44 Cook Street, Denver, CO 80206-5191. Telephone: (303)388-4531O. Second-class postage paid at Denver, CO 80206-5191 and additional mailing offices. POSTMASTER: Send address corrections to INDUSTRIAL DISTRIBUTION® at the Denver address. INDUSTRIAL DISTRIBUTION® copyright 1988 by Reed Publishing USA; Saul Goldwertz, Chairman; Ronald G. Segal, President/C.E.O.; Robert L. Krakoff, Executive Vice President; William M. Platt, Senior Vice President. Annual subscription rates for non-qualified individuals: USA, $50 per year; Canada and other countries, $70 per year for surface mail, $150 per year for air mail. Except for special issues where price changes are indicated, single copies of regular issues are available for $6.00. Please address all subscription mail to Kelly Albright, 44 Cook Street, Denver, CO 80206-5191.

REPRINTS: For quotes, contact Reprint Services, 1350 E. Touhy Ave., Des Plaines, IL 60018; (312) 635-8900

4/4/88

C1850-4

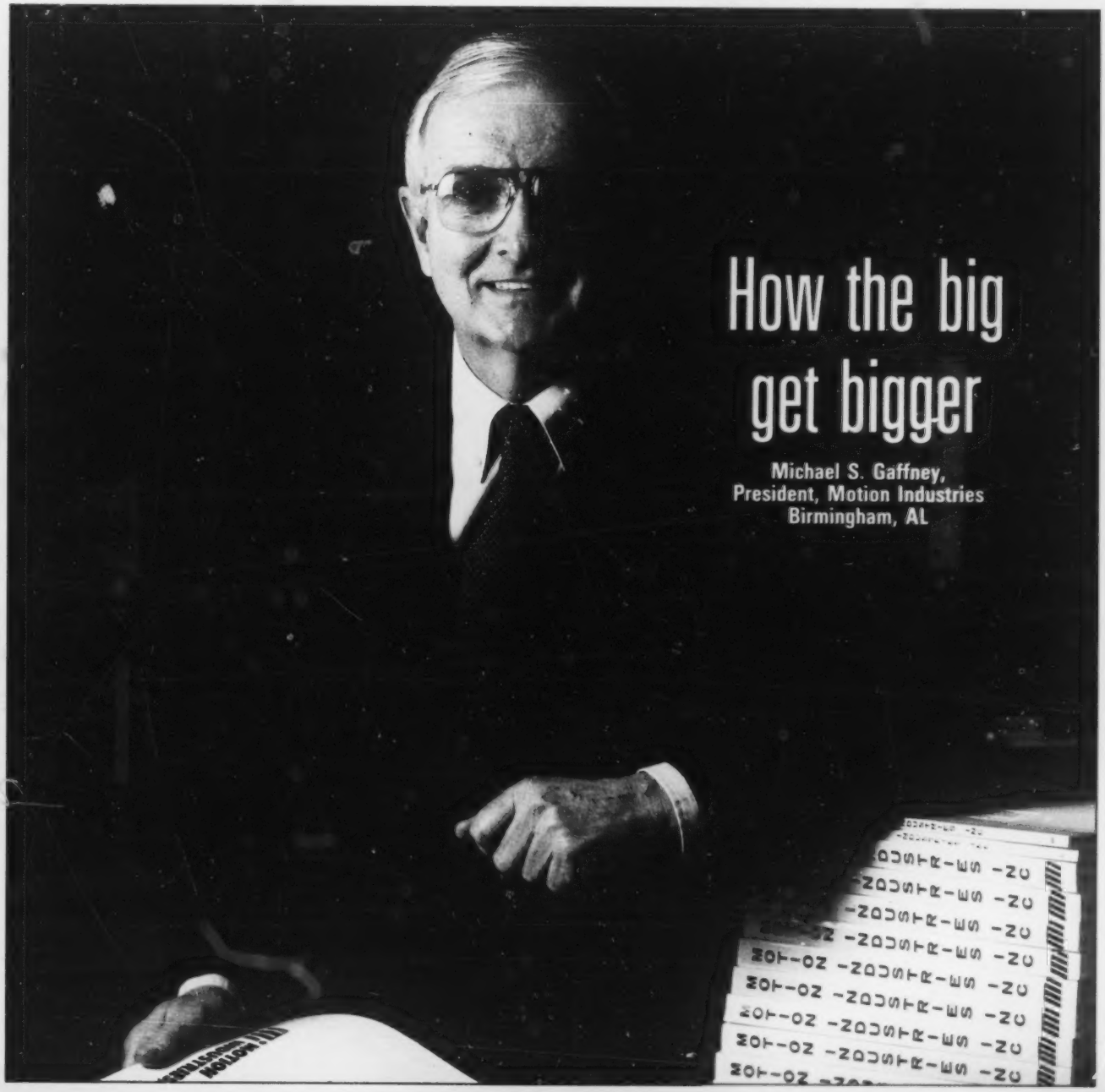
FEBRUARY 1988
A CAHNERS PUBLICATION

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Covering the coatings market



Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 77, NO. 2 FEBRUARY 1988 A CAHNERS PUBLICATION

Under the direction of President Michael S. Gaffney, sales at Motion Industries neared $425 million in 1987.

COVER STORY—MANAGEMENT

26 How the big get bigger

A special in-depth report traces the paths that four companies took to become dominant players in the distribution industry.

SELLING

37 Covering the coatings market

Tips from the pros on which merchandising techniques work.

MEETINGS

43 Central States convention

It was all business when the Central States Industrial Distributors Assn. met in Chicago. ID was there.

ASSOCIATIONS

47 NAHAD fills the niche

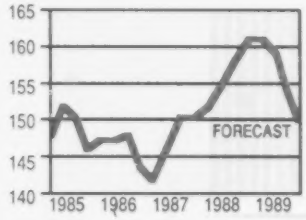
In an exclusive interview, Paul Fabacher, outgoing president of NAHAD, talks about his association.

MANAGEMENT

25 Editor's Opinion

69 Business Report

NIDA/SIDA Sales Index
1977 = 100



Good news for distributors serving heavy industry.

71 Supply Outlook

Little danger of a supply crunch stopping the industrial recovery.

74 Clifton on Management

Bob Clifton examines the rebirth of captive distribution and why it may be a threat to distributors.

SALES & MARKETING

51 Strictly for Salesmen

Here's how humor can be an effective sales tool.

DISTRIBUTOR'S UPDATE

7 Distribution Briefs

A quick look at the latest happenings in the distribution business.

9 News

A federal appeals court reaffirms that tie-ins violate antitrust laws; Gates strengthens industrial and hydraulic hose business; Detroit Ball Bearing buys Indiana distributor.

21 Washington

Inventory tax rules under review; Canada becomes promising market for distributors in and around the Great Lakes.

22 Letters

52 Calendar

53 Association News

77 Advertisers Index

PROFITABLE IDEAS

55 Computers

Portable data collection terminals are one facet of an overall automation program.

57 Products for Profit

The latest products available from leading suppliers.

67 Literature

New brochures, catalogs and data sheets from manufacturers.

BUSINESS REPORT

BY WILLIAM C. WOOD

Strong industrial upturn in '88

Increases predicted for distributors serving heavy industry.

GNP growth in the U.S. will have a different mix in 1988 compared to the past 2 years. Nonresidential spending will add to GNP growth for the first time since 1985, as spending for structures rises above its recessed levels and equipment spending doubles its 1987 growth rate. Net exports will also boost GNP, as exports growth outpaces imports for the second year in a row. Inventory building will also contribute to the expansion.

Although consumers will continue to spend, it will be below their 1986 pace, with little growth in expenditures for durable goods like autos and appliances. Growth in government spending, particularly defense spending, will also slacken.

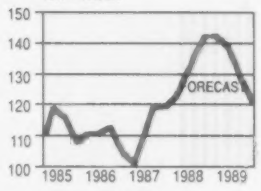
The result of these factors will be slightly more GNP growth in 1988 than in either of the past 2 years, with the average for the 3 years being right in line with the long-term average for the economy.

Because the growth is coming from the manufacturing sector, manufacturing capacity utilization is on the rise. The reasons: rising merchandise exports, increasing productivity and a generally strong economy. The percent of capacity utilized increased from 79.6% at the beginning of 1987 to 81.7% in the recently released October figures.

These trends will result in substantial increases in distributor activity in areas that serve heavy industry. The number of distributors in the north central and south central regions of the U.S. that are planning to increase their inventories has risen significantly since last month, as sales figures in these regions.

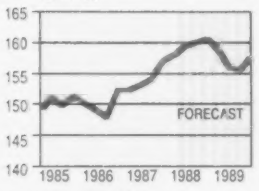
Distributors in regions that rely heavily on government defense contracts will begin to see a leveling off in activity, which would account for the large increase in the number of companies that plan to maintain or reduce current levels of inventory.

ASMMA New Order Index
1977 = 100, SA



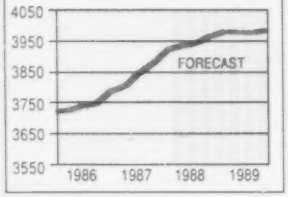
Data source: ASMMA
Forecast source: Cahners Economics

NIDA/SIDA Sales Index
1977 = 100



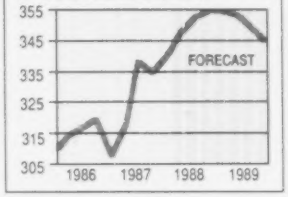
Data source: NIDA
Forecast source: Cahners Economics

Gross national product
Billions of 1982 dollars, SAAR



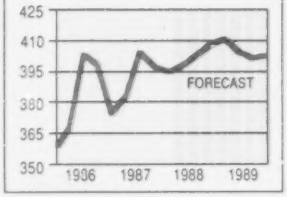
Data source: Commerce Dept.
Forecast source: Cahners Economics

GPDI-producers durable equipment
Billions of 1982 dollars, SAAR



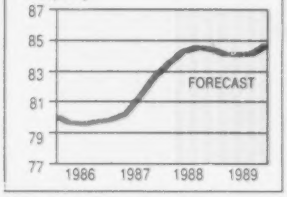
Data source: Commerce Dept.
Forecast source: Cahners Economics

PCE-durable goods
Billions of 1982 dollars, SAAR



Data source: Commerce Dept.
Forecast source: Cahners Economics

Capacity utilization — manufacturing
% capacity



Data source: Federal Reserve Board
Forecast source: Cahners Economics

SALES BY REGIONS (% Change)	SALES (%) FIRST 10 MOS '87 vs FIRST 10 MOS '86			RECEIVABLES (# of days) OCT '87 VS OCT '86						INVENTORIES		
										Remain		
	Gen.	Spec.	Comb.	Gen.	Spec.	Comb.	Gen.	Spec.	Comb.	Increase Levels	The Same	Decrease Levels
NEW ENGLAND CT, RI, MA, NH, VT, ME	17	5	21	40	38	44	37	37	44	13	62	25
MID-ADLANTIC NY, NJ, PA	–4	0	7	52	44	46	53	45	48	22	52	26
SOUTHEAST DE, DC, MD, VA, WV, GA, NC, SC, FL	5	15	15	38	50	40	49	49	40	14	64	22
NORTH CENTRAL OH, IL, IN, MI, WI	1	9	20	41	47	60	39	47	56	27	53	20
SOUTH CENTRAL AL, MS, KY, TN	23	39	–15	20	35	56	35	28	50	50	30	20
MIDWEST MN, ND, DS, IA, NE, KS, MO	–3	9	8	—	28	49	—	28	51	21	63	16
SOUTHWEST AR, LA, OK, TX	–9	3	10	40	48	40	40	43	45	40	40	20
MOUNTAIN NM, AZ, CO, UT, NV, WY, MT, ID	20	133	—	—	34	0	—	44	0	0	40	60
PACIFIC CA, OR, WA	9	19	8	45	37	35	43	44	28	17	50	33
U.S. TOTALS	6	8	12	41	43	48	41	43	48	24	53	23

SUPPLY OUTLOOK

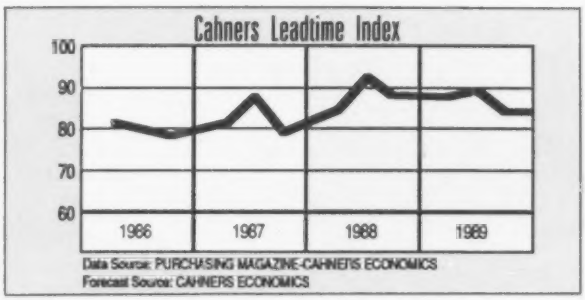
BY WILLIAM C. WOOD

Supplies in good shape

Little danger of a supply crunch stopping the recovery

Capacity utilization is rising, prices are beginning to heat up, and industrial supplies and components leadtimes are stretching. All of the usual supply-side signals are showing increased activity. The question now is whether or not there will be a supply crunch that will cut short the current industrial recovery like the crunches that cut short the past two recoveries.

The answer is no. Although the indicators are rising, they remain at relatively safe levels for this point in the recovery. If these levels are compared to the supply conditions that prevailed during the past recoveries, it is clear that the current situation is not overheated.

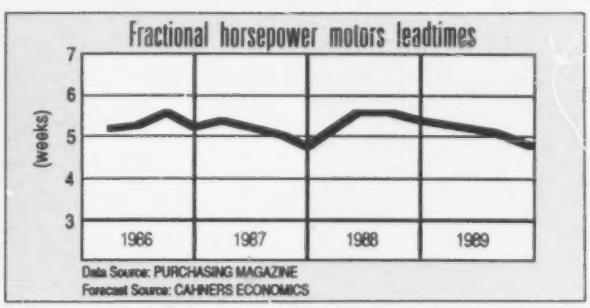


More intelligent inventory management has resulted in supplies being in better shape now than in the past. Relative to sales, inventories are much lower now than is usual for this phase of a growth cycle.

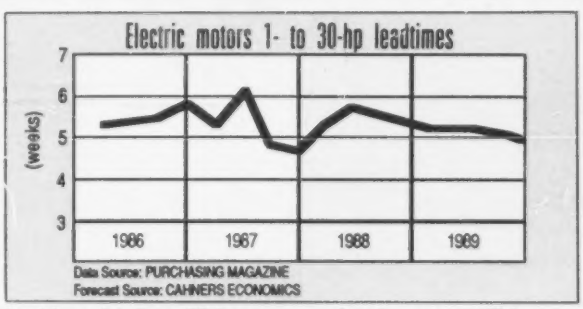
Traditionally, inventory build-up has proceeded despite the lack of equal end market demand (recall the inventory woes of the auto manufacturers in '86 and '87), with the end result being a steep and long downturn in the business cycle at the end of a recovery phase. Tighter inventory controls have reduced these sharp drops.

Other factors will also help minimize the danger of a supply-side expansion stopper. First, the nonmanufacturing sector will experience only average growth this year. Second, growth in most foreign countries will be weaker than in the U.S.

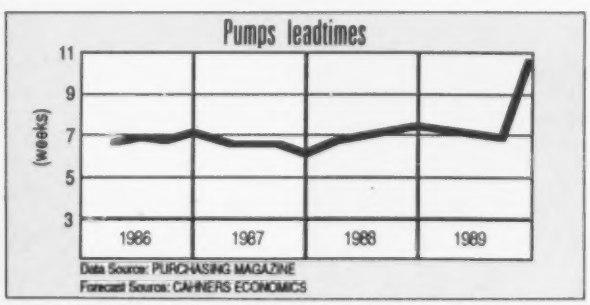
The result of these factors is an economy that is less cyclical—booms will be weaker and busts will be milder than they have been in the past for most industries. The time has come to pay closer attention to signals from the demand side (consumer market forecasters have already learned this), instead of from the supply side, in order to monitor tomorrow's industrial manufacturing trends.



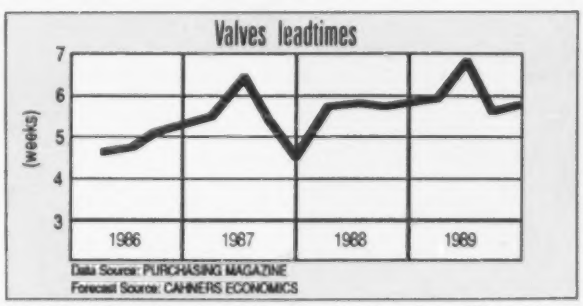
After dropping to 4.7 weeks in late '87, fractional horsepower motor leadtimes will climb to 5.5 weeks in '88.



Leadtimes for 1- to 30-horsepower electric motors will increase, averaging 5.5 weeks in '88.



Pumps leadtimes will be over 7 weeks for most of '88, an increase of 10% over '87.



Leadtimes for valves have been lengthening since '85 and in '88 will average 5.8 weeks.

Why Our Punches, Pins and Blanks Work Harder on the Job... *and for Distributors*

Quality products and good margins work hard for you. That's why our broad line of punches, pins and blanks in a variety of steels, are fully ground to critical tolerance. And your margins are among the best in the industry. A liberal discount schedule, off-the-shelf delivery, promotional and sales support make Precision Punches work even harder. Specials and miniatures are also available.

CALL TOLL FREE to find out what our distributor program can do for you:

800/325-7593 In CT: **800/842-8703**

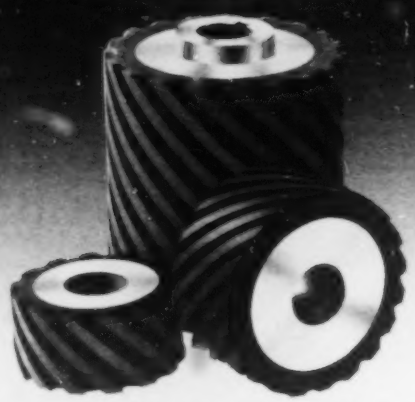
PRECISION PUNCH CORPORATION

119 John Downey Drive, New Britain, CT 06050

Circle No. 63

it's a fact.

Whatever your customers needs — standard or custom — CRC can deliver!



With CRC quality contact wheels, you not only get maximum performance and superior results, but also FAST delivery and the finest service and technical support possible. Call today for complete product information.

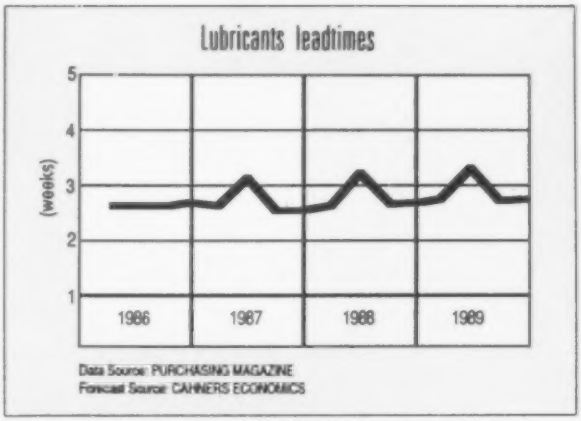
Dealer Inquiries Invited

CONTACT RUBBER CORPORATION

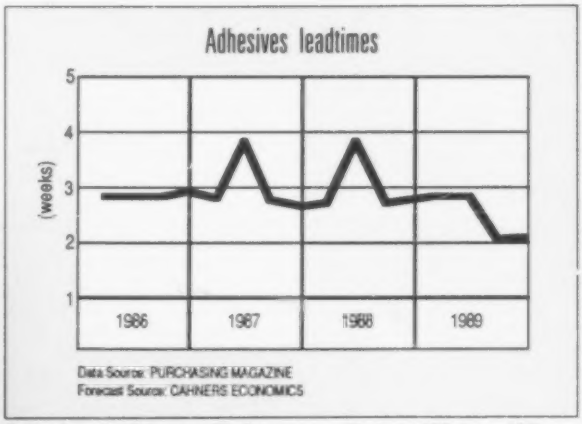
BOX 97/BRISTOL, WI 53104 (414) 857-2351 FAX (414) 857-9483

Circle No. 64

SUPPLY OUTLOOK



Steady supply will result in stable leadtimes for lubricants. They will stay at 2.6 weeks for most of '88.



Adhesives leadtimes will change very little in '88 from '87, when they averaged just under 3 weeks.

Output of machinery will expand in '88

The industrial machinery sectors will experience solid expansion in '88 as manufacturers continue to benefit from a weaker dollar. Exports of manufactured goods have begun to increase and will continue to grow as foreign markets open up to cheaper U.S. goods. Domestic demand is also on the rise, driven primarily by an increase in investment spending. Expenditures for nonresidential structures and equipment will rise substantially—with the majority of the growth occurring on the equipment side—as manufacturers add capacity to meet increasing demand.

Industrial Distribution®, (ISSN 0019-8153) is published monthly by The Cahners Publishing Co., A Division of Reed Publishing USA, 275 Washington St., Newton, MA 02158-1630. Terrence M. McDermott, President; Ellsworth M. Brown, Jr., Group Vice President; Jerry D. Neth, Vice President/Publishing Operations; J.J. Walsh, Financial Vice President/Magazine Division; Thomas J. Dellamarra, Vice President/Production and Manufacturing. Circulation records are maintained at Cahners Publishing Co., 44 Cook Street, Denver, CO 80206-5191. Telephone: (303)388-4531. Second class postage paid at Denver, CO 80206-5191 and additional mailing offices. POSTMASTER: Send address corrections to INDUSTRIAL DISTRIBUTION® at the Denver address. INDUSTRIAL DISTRIBUTION® copyright 1988 by Reed Publishing USA. Saul Goldweitz, Chairman; Ronald G. Segal, President/C.E.O.; Robert L. Krakoff, Executive Vice President; William M. Platt, Senior Vice President. Annual subscription rates for non-qualified individuals: USA, $50 per year; Canada and other countries, $70 per year for surface mail; $150 per year for air mail. Except for special issues where price changes are indicated, single copies of regular issues are available for $6.00. Please address all subscription mail to Kelly Albright, 44 Cook Street, Denver, CO 80206-5191.

REPRINTS: For quotes, contact Reprint Services, 1350 E. Touhy Ave., Des Plaines, IL 60018; (312) 635-8800.